DOCUMENT RESUME

ED 173 187 **SO 011 469**

AUTHOR	Holt, Geoffrey
TITLE	Understanding Unemployment. "Understanding Economics" Series No. 1.
INSTITUTION	Canadian Foundation for Economic Education, Toronto.
PUB DATE	76
NOTE	21p.; For related documents, see SO 011 470-474 ; Best copy available
AVAILABLE FROM	Canadian Foundation for Economic Education, 155 University Avenue, Suite 301, Toronto, Ontario, Canada M5H 3B7 ($1.00 paper copy)
EDRS PRICE	MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	Economic Education; Economic Factors; Employment Problems; *Employment Trends; Foreign Countries; Futures (of Society); *Government Role; Growth Patterns; Instructional Materials; Job Market; Labor Economics; *Labor Force; Labor Market; *Policy Formation; Political Issues; Secondary Education; Social Problems; Social Studies; Trend Analysis; *Unemployment
IDENTIFIERS	Canada

ABSTRACT

Devised for secondary school students, the booklet explains current employment trends, policies, and issues of Canada's labor market. The book is divided into three parts. Part I discusses the labor force in terms of supply and demand, the working age population, the labor force participation rate, total employment, unemployment, and seasonal adjustments in the unemployment rate. Part II explores the changing nature of Canada's labor market. Growth factors such as the Post World War II baby boom, the increasing number of women in the labor force, and immigration patterns are analyzed. Current demands for labor, service industries, and employment trends through a recession are also discussed. Part III considers issues and policies. One major issue concerns determining who the unemployed are. Seasonal factors, regional differences, and employment patterns of young people are noted as important elements in analyzing the unemployment rate. Issues surrounding the revised (1971) Unemployment Insurance Act and indirect and direct effects of government policies on employment are also discussed. Tabular presentations of major topics are provided in insets in each section. (KC)

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"Understanding Economics" Series

Understanding Unemployment

Geoffrey Holt

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This booklet on Understanding Unemployment is the first of a series on Understanding Economics.

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SP-0114/69

The Canadian Foundation for
Economic Education 1976

Preface

Like inflation, unemployment is one of those problems that most people have vague views about, but not necessarily an understanding of. The person out of work, of course, knows only too well what unemployment means; but depending on the particular circumstances this can range from placid acceptance of the way things are to utter despair and family hardships.

To really understand unemployment, it is necessary to do more than simply imagine a human-interest stereotype situation, or to ask oneself what it would be like to be out of work. That approach does no more to get to grips with the problem than say, price-monitoring at the local supermarket explains the complexities of inflation. Unemployment has also to be understood in its broad economic setting, as an integral part of the economy's relationships; it reflects the making of trade-offs, or choices, both for individuals and for society as a whole. This booklet is an attempt to explain some of the mechanisms and terms involved in Canada's labour markets, and to point out where some of the important trade-offs exist.

The commentary assumes throughout that the reader has only a little prior knowledge of economic terms and concepts. It may be read with or without stopping at the more detailed treatment presented in the boxes. The particular audience for which it has been designed is the more senior level of high school. An accompanying set of teacher's notes ***"Teachers' Guide to Understanding Unemployment"***, has been drawn up and is available separately.

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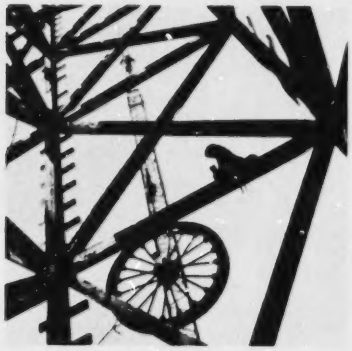

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Part I

The Basics

Unemployment: A Perennial Concern

Unemployment is, it seems, always close to the centre of economic debate. It isn't difficult to see why. Our society is geared towards the concept of working for a living by means of the division of labour, so that the possession of a job is a really important matter to people. And in the post-World War II era of Keynesian economic policies, "full employment" has been one of the major goals that governments have pursued.

In the effort to achieve full employment, governments aren't expected to provide all the jobs directly, although, as the largest employer in the country, the public service has certainly come to exert a major influence on the whole labour scene. Rather, full employment is sought, simultaneously with all the other desirable but sometimes competing policy objectives (price stability, regional development, equitable income distribution and many others) through the traditional broad mixture of government monetary and fiscal policies which affect the growth and pattern of the whole economy. To some extent, too, governments use policies aimed specifically at making the labour markets function more effectively – in other words to help demand and supply to match each other better.

Because unemployment is an issue that concerns individuals directly, and because it also ranks high among the concerns of governments, it is doubly important to understand something of the nature of unemployment – how the problem may have been changing over the years, and how it compares with other pressing concerns. While there can never be any really objective measure of the hardship implied by a given level of unemployment in the country, we can make an effort to put the problem in its current perspective. Perhaps, too, we can appreciate that it is not, in fact, one single problem, requiring one single solution, but a composite of several.

What is Unemployment?

In Canada, if someone is without a job and is actively looking for one, such a person is counted as unemployed. This is a simple definition, and is the one used each month in the labour force survey. The **unemployment rate** is the percentage of the labour force unemployed. It is a very up-to-date measure (the results of one month's survey are published the next month) and since it says something about how fully the nation's productive capacities are being used, the unemployment rate has become one of the most essential and widely referred-to economic yardsticks in the country. As soon as it is published each month, it is subjected to instant interpretation by politicians, the press and economists.

But what does the unemployment rate really mean? Should we be using this single statistic as an indication of such things as human hardship, or excessive demands for labour? When we hear that the unemployment rate last month was 7.0% or that there were 700,000 people recorded as unemployed, how are we to judge what those figures mean? Simply to draw on historical comparisons, or on parallels with other countries, could be incomplete, for as we shall see later, there have been some important changes in the composition and growth of Canada's work force, and in the whole work environment. These changes have, in fact, been sufficient to alter substantially economists' ideas of what rate is to be considered as "full employment" in Canada. With this proviso in mind, it might be useful here to outline in a preliminary way Canada's recent unemployment profile.

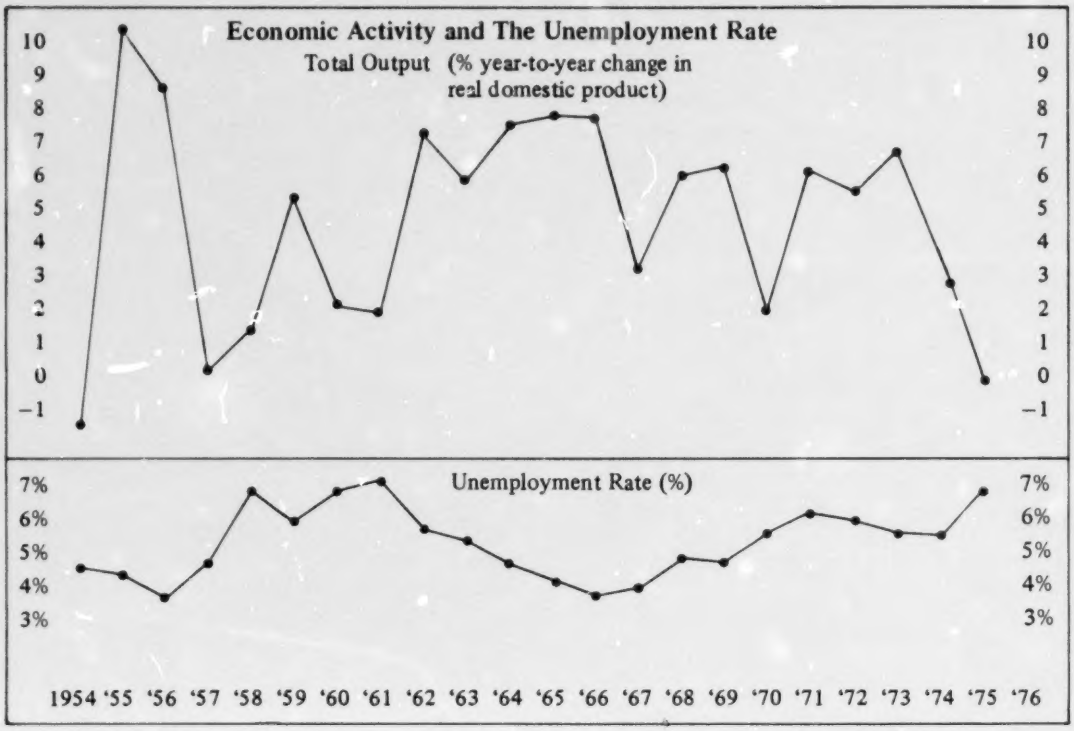
As can be seen from the chart opposite, higher unemployment rates correspond, quite naturally, with periods of economic recession, when production and total employment either slow or decline. In the ups and downs of the business cycle, the two are usually closely connected with each other, with changes in employment tending to lag behind changes in production. During the two most recent recessions, 1969-1970 and 1974-1975, the unemployment rate moved up into the 6 or 7% region. In between, even though the economy, by some measures, came very close to operating at full capacity, the unemployment rate scarcely dipped below 5%.

None of this, however, has told us very much about the underlying conditions in Canadian labour markets in the past six or seven years. To discover that, we must first become familiar with the basic concepts involved, and then look for important changes through the period.[1]

The Labour Force Framework

One of the more helpful ways of analysing the "labour market" is to concentrate on the key elements of **demand** and **supply**.

The obvious starting point in looking at the supply of labour is the size of the country's **working-age population**. Canada's



definition of this was for many years the civilian population 14 years of age and over. As part of a group of changes in the official survey effective at the beginning of 1976, this has now been changed to 15 years of age and over. Amongst the whole working-age population there are, of course, many people who for various reasons do not count themselves in the **labour force** – that is, who are neither working nor looking for work – particularly those women who run a home and who do not need or want to go out to work. The proportion of the working-age population counting themselves in the labour force is called the labour force **participation rate**. Obviously, the participation rate is higher among certain groups than it is among others. For men between the ages of 25 and 64, the participation rate is currently around 93%, while for women in the same age group the rate is around 44%. Of those people aged between 15 and 24 – the group for whom the important choice between school and work applies – about 60% are currently attached to the labour force.

There is thus a twin step in determining the size of the labour force: the size of the working age population (which is governed by the birth rate, the death rate and the rate of net immigration); and the rate of labour force participation, which is affected by a great many decisions and influences.

On the other side of the ledger – the demand side – is **total employment** – the number of people with a job. The difference between the total labour force and total employment is **unemployment**. The big challenge is to match the labour force with appropriate jobs.

The **average** unemployment rate in Canada since the early 1950s has been over 5% of the labour force. Why has this matching proved so difficult? There is a continuing debate on this, but most economists analysing the structure of Canada's economy acknowledge as important factors the vast geographical spread, the marked economic differentials between regions, and the severe seasonal variations throughout the country. In a sense, there is no such thing as **one** unemployment rate, but rather a whole series across the country, reflecting the different functioning of labour markets in different regions and industries. In a year when the economy as a whole was judged to be booming, such as 1973, the unemployment rate in Ontario ran at only 4% while the rate in the Atlantic region was still as high as 9%. Of course, **within** regions, there can also be considerable labour market differences.

In the same way the national unemployment rate in any one year can be viewed as the rates for two distinct **seasons** rolled into one. For example, the national unemployment rate for the year 1974 was 5.4%. Looking at the individual quarters in that

year, the actual unadjusted rate ranged from 6.7% (averaged from January through March) to 4.5% (averaged from July to September). Yet, **after seasonal adjustment** of the figures, the rates for both periods were scarcely any different – 5.4% and 5.3% respectively. Seasonal adjustment of figures is essential, of course, in any attempt to read economic significance into the monthly survey (see box below). But the fact that there **are** seasonal variations in labour force participation and in job availability is nevertheless an unavoidable aspect of Canadian life.

One further point to note is that people may be unemployed at a particular time for a wide variety of reasons. They may have been laid off temporarily because of an industrial dispute in another industry; they may work in a "seasonal occupation"; they may have quit voluntarily to look for a better job; or they may have been laid off months earlier and have never been rehired. In other words, there are many "shades" of unemployment. If the number of unemployed people should happen to be the same for two months, it does not follow that these are the **same** people out of work.

"Seasonally Adjusted" Unemployment Rate

The fact that two unemployment rates are published each month sometimes leads to confusion. The straightforward, **unadjusted** rate is always at its highest in the winter months of the year, and at its lowest in the summer. This is mainly because the availability of jobs in some industries in some parts of the country varies according to the season. Construction work is often impossible at the height of the winter; fishing operations are curtailed, and so on. The summer, in turn, opens up special opportunities, such as jobs for students in the tourist industry. Both the number in the labour force and the number employed are affected by the seasons, but the net impact is to push up the unemployment rate through the winter.

Thus the **seasonally adjusted** unemployment rate is the one to look at for a view of the underlying trend of unemployment over a period of months. The labour force and employment data in the monthly survey are simply adjusted by arithmetic factors based on observed seasonal variations over the preceding few years. Because it is possible for seasonal factors to change over a number of years – for example, the size of the annual temporary influx of summer students – the adjustments made may not fully iron out the exaggerations in the current year, and the adjusted figures may get revised after the full year is over. (This has indeed happened for the past few years.)

The use of seasonally adjusted data is preferable in the detection of current changes, and the underlying situation can be misinterpreted if people use unadjusted data without fully acknowledging the seasonal influences that may be present.

The Labour Force Survey

Although the odds are slim, it is possible that at some time you will find yourself asked to cooperate in responding to the monthly labour force survey from which the nation's unemployment rate is derived. This survey is conducted by Statistics Canada, the country's official statistics gathering agency. At present about thirty thousand households across the country are chosen each month by careful sampling, and people are asked about their status during the week before. Did they do any work for pay or profit, or contribute to the running of a farm or household business? Did they have a job but were prevented from working by bad weather, illness, industrial dispute? And so on. Housewives who work part-time are counted as employed and if they look for part-time work, as unemployed. All kinds of relevant details, such as age, sex, family status, duration of unemployment, occupation, industry, are collected.

The tabulations that result help point up some of the details of a very complex diversified national picture. But because they are from a sample, they are subject to error, and any one month's figures in isolation may well be suspect. Small regions – Prince Edward Island being an obvious example – cannot present a very reliable sample base, and their numbers, therefore have to be taken as very approximate.

Beginning in 1975, and with the results being actually published from January 1976 onwards, a **revised labour force survey** has been used.[2] The questionnaires were redesigned in order to obtain more detailed information about the unemployed, and in particular to allow a clearer differentiation between the unemployed and those not in the labour force. The sample size is also being increased gradually to reach 55,000 in 1977. The net results of the changes in definitions and questions are not very great in total (the average unemployment rate for the year 1975 was 6.9% on the new basis, compared with 7.0% on the old). However, the new survey gives noticeably higher unemployment rates for women and lower rates among men. Statistics Canada expects that with the help of newly available data, users of these statistics will be more in a position to make their own definitions of unemployment, depending on the particular aspects they are concerned with – a point which will be discussed more fully in the final section.

Part II The Changing Nature of Canada's Labour Markets

photo: Robert C. Ragsdale

Canada's labour force has jumped from seven million to ten million people in just ten years.

It will take us a little closer to the heart of the subject if we can become familiar with some of the major changes that have taken place in the size and structure of the labour market in the past ten years or so. A really outstanding feature in Canada has been the very rapid increase since the mid-1960s in both the labour force and total employment. The increase each year in the labour force has averaged about 3½%. That growth rate may not sound like much, but it has been enough to push the labour force up from 7 million in 1965 to 10 million in 1975.

The Baby Boom

Where have these three million extra people come from? The most important single explanation is the emergence of Canada's well-known bumper crop of post-war babies. The surge in the birthrate from the end of World War II until about 1960 has had quite predictable effects on the numbers of young people entering the labour force. Of course, the resolving of the usual dilemma that confronts young people – more school or work? – has had a bearing on the actual flow of new entrants from year to year. In fact, in recent years, the participation rate among teenagers has been increasing, so swelling the work force even more.

This bulge in Canada's demographic profile has had a major economic impact in all kinds of areas. So far as the labour force is concerned, it will remain an especially expansive influence until about the end of this decade.

Women at Work

The other major growth factor has been the steadily increasing rate of labour force participation among women. It has become much more standard nowadays for women to continue working after getting married, to go out to work again after raising children, and generally to follow career interests. As we shall see later, the increasing number of women at work has also been linked closely to the varied job opportunities opening up in the fast growing service industries, such as retail trade, banking and the public service. In technical terms, the female participation rate has jumped from 33% in 1965 to 45% in 1975. In fact, of the roughly 3 million increase in Canada's total labour force in the past ten years, women have accounted for half.

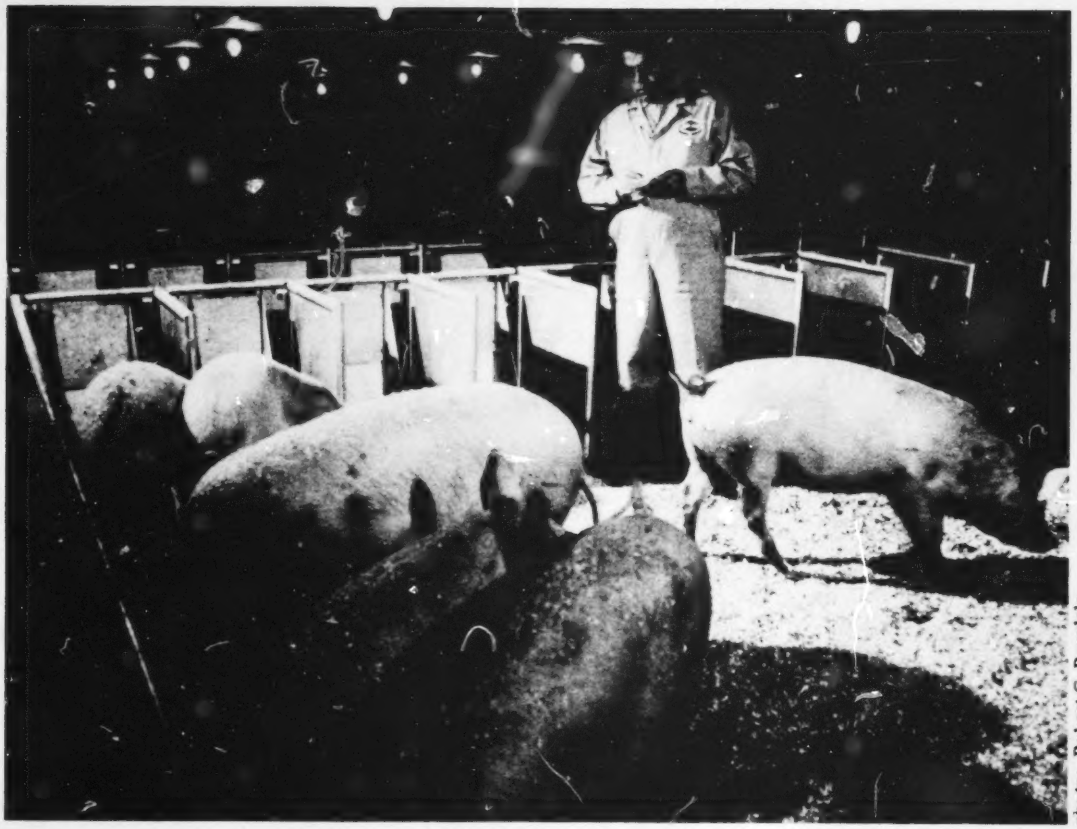


photo: Robert C. Ragsdale

In some sectors, such as agriculture, employment has been on the decline – mechanized pig farming . . .

photo: Miller Services

. . . while in other areas, new jobs have been springing up . . . airport security checks.

The 1980s: Slowdown Ahead

Components of Labour Force Growth, 1950-85

	Net average annual immigration	Average annual growth rates	Average annual change	Contribution to labour force growth		
				Natural increase	Participation rates	Net immigration
	(Thousands)	(Per cent)	(Thousands)		(Per cent)	
1950-55	120	1.8	99	43	–4	62
1955-60	102	2.7	159	47	19	35
1960-65	42	2.3	156	71	19	9
1965-70	101	3.2	246	67	10	22
1950-70	*91*	*2.5*	*165*	*60*	*12*	*28*
1969-74	88	3.4	300	59	25	15
1975-80[1]	100	2.5	254	64	16	20
1980-85[1]	100	2.0	234	46	32	22

[1] It is assumed that 52 per cent of the immigrants will enter the labour market.

Source: Based on data from Louis Parai, *The Economic Impact of Immigration*, Department of Manpower and Immigration (Ottawa: Information Canada, 1974): and estimates by the Economic Council of Canada.

Source: Economic Council of Canada: 12th Annual Review

What happens as the "bulge" get older? During the next ten years, and particularly after about 1979, the flow of young people into the job market will actually decline, as the ending of the baby boom (or more accurately the sharp *drop* in birth-rates beginning in the early 1960s) makes itself felt. Continuing increases in female participation could continue to be a significant growth factor, as of course could immigration, but we are nevertheless likely to see a major unwinding of the situation prevailing through the past ten years – something which the Economic Council of Canada has been highlighting in some of its recent studies. The picture for the past few years, together with some of the Council's projections of what might happen over the next few years, is put together in the table.

Immigration

Mention, finally, should be made of the varying flows of net immigration (i.e. immigrants less emigrants). Because a sizeable proportion of immigrants into Canada are labour force participants – in most years roughly half consists of potential workers with existing skills – the flow of immigration has a noticeable impact on the labour force in years of high immigration.

Jobs for a Growing Work Force

We have looked at the supply of labour; what about the demand? The demand for labour is, in fact, an amalgamation of all kinds of differing demands. There is the demand for particular professions or skills – engineers, accountants, pipefitters, etc. There are the demands from particular industries or services, whether it be coal-mining or advertising. There are demands originating from particular parts of the country, from Southern Ontario to the MacKenzie Delta. Beyond that, there are demands for part-time workers as opposed to full-time, and so on. This is, of course, one reason why it is only of limited use to think all the time of one big labour "market". We may like to think of one single demand for labour, but in fact it consists to a large extent of quite specific elements, e.g. the need for a pipefitter for a petrochemical plant in Sarnia.

Over a long period of time, these various demands change considerably. Because of more modern methods of farming, for example, Canadian agriculture has been employing fewer and fewer people, but at the same time whole new industries and occupations have been opening up. Who would have thought, thirty years ago, that there would be as many airport security guards as there are today, or economists, or computer programmers, or bank tellers, or public servants? Even in the space of ten years, shifts such as these can be quite remarkable. (See box, page 11)

photo: Robert C. Ragsdale

Even jobs in service industries often depend on the use of expensive capital equipment.

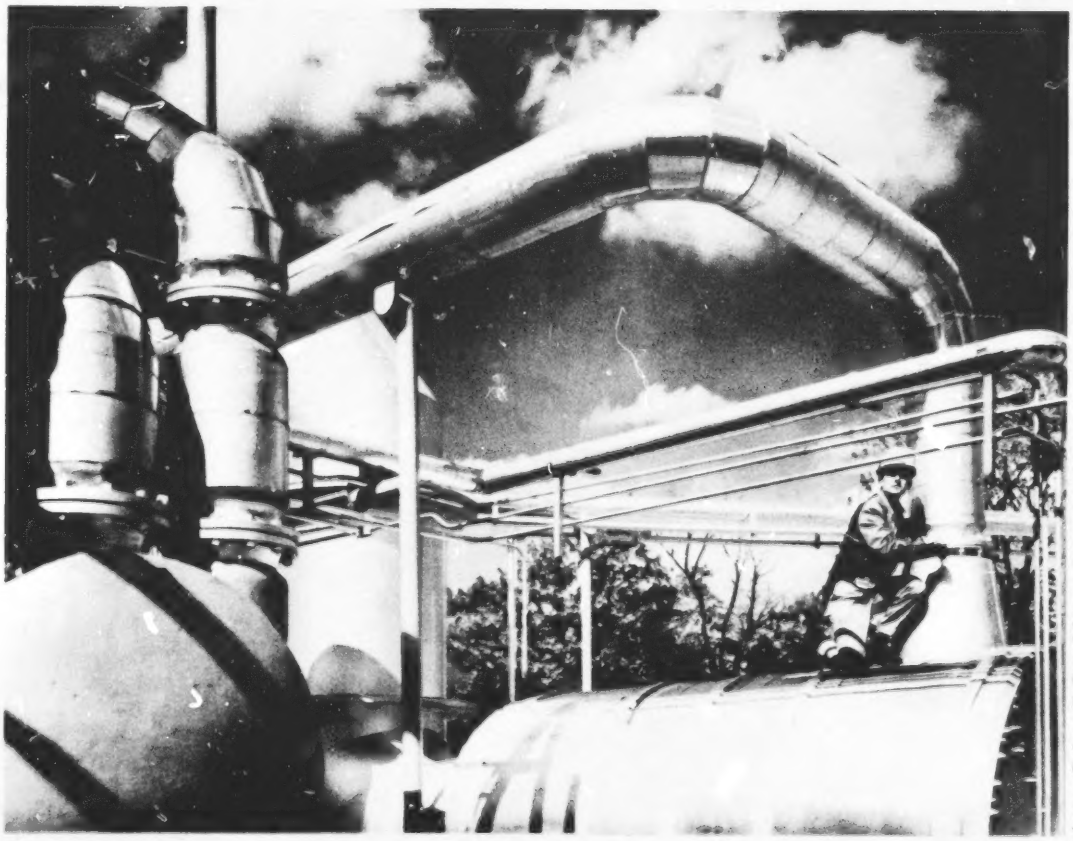


photo: Robert C. Ragsdale

For an expansion of employment over the longer term, there has to be an expansion of productive capacity.

Canada's Jobs: Structure and Growth

		1951	1961	1971	1975	Changes in employment 1971-1975 (thousands)
			(per cent)			
Goods-producing	Agriculture	18.4	11.2	6.3	5.1	– 31
	Forestry	2.3	1.4	0.9	0.8	0
	Fishing and trapping	0.6	0.3	0.3	0.2	+ 1
	Mining	1.5	1.3	1.6	1.4	+ 3
	Manufacturing	26.5	24.0	22.2	21.0	+ 156
	Construction	6.8	6.2	6.2	6.5	+ 110
Service-producing	Transport, utilities and communication	8.8	9.3	8.7	8.7	+ 104
	Trade	14.1	16.9	16.5	17.6	+ 303
	Finance, insurance and real estate	3.0	3.9	4.8	4.9	+ 75
	Community, business, personal service and public administration	18.0	25.3	32.7	33.8	+ 509
	All Industries	100.0	100.0	100.0	100.0	+1,229
	Total employment ('000)	5,097	6,055	8,079	9,308	

Major changes are still taking place in Canada's job pattern. The table shows, for example, the continuing decline in agricultural employment. The smaller share being accounted for by jobs in goods-producing industries is counter-balanced by the increasing proportion of jobs in service-producing industries. In the years between 1971 and 1975 (mostly a period of economic recovery and expansion) more than 1.2 million new jobs were created, the majority of them in services, such as retail trade and government.

The Service Economy

The broadest single trend in employment growth continues to be the relatively faster expansion of jobs in service industries compared with goods production, though the latter is still growing.

Why should it be that the most rapid increase in jobs has been in services? Partly it reflects the kinds of things that are increasingly being demanded in an urbanized and highly developed economy. (Just follow through some of the implications of modern trends in entertainment: TV repairmen, record stores, restaurants.....) But it is also because, whereas increases in productivity (or output per worker) are usually possible in goods-producing industries through the use of more automated equipment and more efficient systems, the output of people engaged in some service occupations cannot always be so easily stepped up. Barber shops are the usual example; unless the quality of work were to suffer intolerably, virtually the only way they can increase their output is by taking on more barbers.

The need for capital investment

The important thing to note, however, is that for a genuine expansion in employment over the longer term, there has to be an expansion of productive capacity in one form or another. The building of a new steel mill, such as the one currently being built at Nanticoke on Lake Erie, is an obvious demonstration of the job creation process. It illustrates not only the direct and immediate employment effects on construction trades and the continuing effects for the steel mill operators themselves, but also the indirect stimulus to jobs in neighbouring shopping plazas, garages and other services.

The basic necessity for capital investment in the job-creating process is not confined to goods-producing industries, of course. Service industries usually require significant amounts of capital equipment. Have a look at all the accompanying gadgetry of a new fast food outlet the next time you buy a hamburger! Or, closer to home, check out the machinery and equipment necessary in the running of a modern school.

Employment trends through a recession

The very recent economic story is reasonably familiar. The slowdown in Canadian production during the 1974-1975 recession brought under-utilization both of manpower and machinery. In mid-1976 there was still a considerable margin of excess capacity in

many of Canada's industries; industrial lay-offs had been common throughout 1975, and re-hiring of the workers involved has been taking place only gradually. Yet employment in the economy as a whole did not decline in 1975 and in some sectors continued to grow through the recession.

But of course, in a country with a fast-rising labour force, a mere holding level in the number of jobs is not sufficient. For the unemployment rate to have risen no higher than 1974's level of 5½%, total employment in 1975 would have had to have risen by 3.6%, or in other words by over 300,000 new jobs. In a recession, with national output actually falling, employment growth of that order is clearly impossible.

Even when output begins to rise again out of a recession – as actually happened towards the end of 1975 – there is usually a lag of many months before the quickening pace of new orders and production schedules begins to give a boost to the number of people at work; for quite a few months, machines can simply be utilized more fully and working hours can be lengthened, perhaps with some overtime work again; and in general, some of the belt-tightening and caution of a recession will persist for a while in the hiring practices of employers. The other side of the coin in such a situation, of course, is that at such a time productivity, or output per man-hour, is boosted, with important beneficial effects on the whole economy. If the labour force should meanwhile continue to grow, it is quite possible for employment to trail further behind it, and so for a while open up the margin of unemployment even more – despite the technical ending of a recessionary period.

Who have jobs?

	1961	1971	1975	Change 1971-75	% Increase
	Employment, in thousands				
Men under 24	734	1,131	1,374	243	21.5
Men 25 and over	3,647	4,261	4,642	381	8.9
Women under 24	528	861	1,046	+ 185	21.5
Women 25 and over	1,146	1,826	2,246	+ 420	23.0
Total	6,055	8,079	9,308	+ 1,229	15.2

Canada's recent extraordinary labour force growth is clearly reflected in its job composition. Note the growing significance of young people and of working adult women. The traditional core of job holders in society – men aged 25 and over – accounted for 60% of the jobs in 1960. By 1975 their share had been squeezed down to 50%. A quarter of Canada's jobs now are held by people under 24, but this proportion will shrink again in a few years.

Unemployment in Other Industrial Countries

The world-wide business recession of 1974-75 has left a huge trail of unemployment behind it in North America, Western Europe and Japan. In some countries, notably the United States, the subsequent recovery in production has already brought some improvement in the job situation. But throughout the western world, serious questions are being raised about the ease with which unemployment rates can be brought down again to previously acceptable levels. These doubts are related partly to the persisting elements of inflation (which may discourage governments from pursuing expansionary policies in the vigorous way that they did in the early 1970s); but they are also related to an awareness of "structural factors" in labour markets which are going to make a substantial reduction in total unemployment very difficult.[3]

In the **United States**, the administration has projected that the unemployment rate which hit 8.5% in 1975 will still be running above 5% until 1981. ("Full employment" there is variously judged to be between 3% and 5%.) Particularly troublesome aspects are the high unemployment rates among teenagers and minority groups.

In the **United Kingdom**, the dilemma is much more acute. The U. K. economy will need to grow at an unusually rapid rate in the next few years in order to reduce unemployment from its current 5 - 6% range. (The average U. K. unemployment rate in the past ten years was about 2.5%.) But a rapid growth rate in the economy may not be possible without a surge in imports and a worsening of the U. K.'s balance of payments problem.

Note: Unemployment rates are not strictly comparable among countries because of differences in measurement and in social structures. However, the U. S. and Canadian methods (both sample surveys) are thought to be sufficiently similar to allow rough comparisons between the two rates.[4]

Part III Issues and Policies: The Dimensions of Unemployment

So long as there continue to be fluctuations in the course of business activity – and the evidence of the past ten years or so has suggested that the up and down movements of the cycle are still very powerful – then the unemployment rate can be expected to vary also. In principle, a "low" unemployment rate will tend to signal that the economy is functioning near its effective productive capacity, while a "high" unemployment rate will suggest that aggregate demand in the economy is inadequate and that official policy stimulus would be appropriate.

But in view of what has been noted earlier about the structural and longer-term changes in Canada's labour force, how can economists and policy-makers be sure of what the unemployment rate actually signals? If they are concerned, for example, about the underutilization of manpower resources (that is the degree to which the economy's total output could be expanded if some of those currently out of work could be employed) would it be realistic to rank each unemployed person equally and assume each could make the same productive contribution? Some allowance has to be made for the differing circumstances in which people find themselves unemployed and also for their differing productive capabilities. Again, if the concern is the human hardship implied by the unemployment rate, what allowances can we make for the differing duration of unemployment and for the family circumstances of those without work?

Who are the unemployed?

The monthly labour force survey usually points up a few characteristics about unemployment that we are probably already quite familiar with. For instance, recorded unemployment rates always seem to be relatively high in construction and in other outdoor occupations – reflecting either seasonal factors or the fact that the work itself is discontinuous and keeps moving. It is noticeable that among young people there is always a higher margin of unemployment – not only reflecting the time taken after leaving school to land their first job, but also because of the rapid turnover as they quit and continue to search for "the right thing". Of course, regional differences in the economy are persistently reflected in regional unemployment, ranging from high rates in the Atlantic Provinces and Quebec to low rates in Ontario and the Prairies.

The important thing to remember, however, is that the official monthly surveys are really only a succession of snapshots. Between one month and the next, identical numbers recorded as employed and unemployed do not refer **to the same people.** This basic principle was underlined in the special study released in early 1976 by the Economic Council of Canada entitled "People and Jobs".

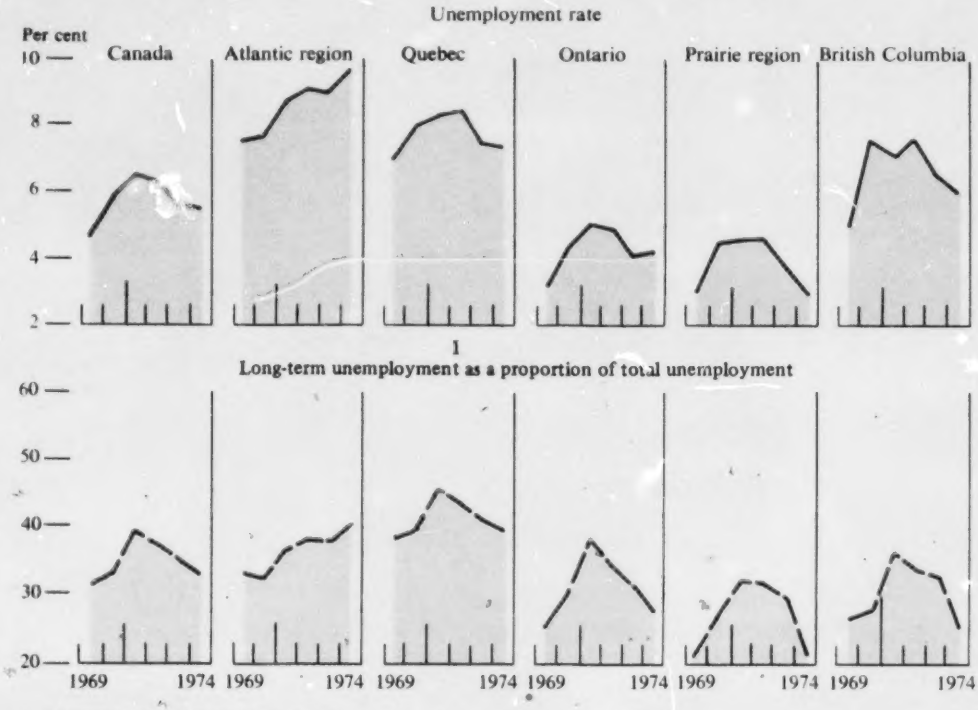
In explaining the continuous shifting which takes place in our labour markets, the study said:

At any point of time in 1975 few more than 10 million Canadian residents were working or actively looking for work. At the same point of time, though, there were many residents who were not in the labour force but who did, in fact, work some period of the year, frequently replacing others who dropped out temporarily or permanently. Overall, taking account of the continuous ebb and flow of persons into and out of the labour market, the actual numbers who worked some time during 1975 in full-time, part-time, or casual jobs exceeded the reported 10 million by an estimated 2.5 to 3 million. Of the approximately 13 million total participants in the labour force at one time or another during the year, as many as 5 million, or possibly more, changed jobs with or without a bout of unemployment, entered, re-entered, left the labour force, or became unemployed. In the process, millions of jobs were vacated and refilled. And, in response to seasonal dictates and to the inevitable fluctuations of demand for different types of goods and services, scores of business enterprises opened and closed, and hundreds of thousands of jobs were initiated and terminated.

In other words, in the Council's view, because such a large proportion of those in the labour force at some time in the year (as much as 40% in their estimate) are involved in some kind of move, it is misleading to think of the labour force as consisting of people **solely** concerned with finding (or keeping) **steady full-time jobs.**

Where does this cautionary note leave us with regard to the initial question of who are the unemployed? The short answer is that we have got to be a bit more precise about our reasons for wanting to pry into the unemployment data in the first place. One important consideration, for example, is **how long** people have been out of work. By excluding those who have been unemployed for less than four months, a quite different picture appears. (see chart, page 14)

Again, it may be necessary to consider the family circumstances of those without work.



1 Unemployed four months or longer.

SOURCE Based on data from Statistics Canada, presented in 'People and Jobs', Economic Council of Canada

In that way, a somewhat clearer idea of the possible hardship involved might emerge. Obviously unemployment tends to be a much more serious prospect for the head of a family with no other family members earning an income than it does for a teenager living at home.

There are limits, however, to how much can be discerned even in these more selective approaches. For instance, there are people at work who may, because of financial considerations, be undergoing just as much hardship as an unemployed head of a family. (These are sometimes called "the working poor".) There is a risk, too, that preoccupation with one particular definition of unemployment – say, only counting male family heads out of work for more than four months – might detract from genuine problems elsewhere in the labour markets, such as youth unemployment. Another possibility is the occurrence of "hidden unemployment", when discouraged workers, unable to find work, move right out of the labour force and are therefore no longer counted as unemployed.

In this respect, unemployment is really no different from any other of our key economic problem areas; our grasp of it is not nearly as clear as we might like.[5] But in dealing with any kind of "aggregate" numbers in economics, this is a perennial hazard.

Related issues

Although the numbers may have ultimate limitations as to their meaning, there is no shortage of **issues** about unemployment. Did the revised (1971) Unemployment Insurance Act, with its more generous coverage, produce higher rates of unemployment, by encouraging people not to take work? Do minimum wage regulations discourage the employment of youths and less-skilled people? Is the "work ethic" dead? Are employers doing enough to make the work environment interesting and rewarding? Is labour in Canada sufficiently mobile?

The difficulty in handling many of such issues is that it is virtually impossible to isolate cause and effect, especially where they involve less "measurable" aspects such as motivation, incentives, attitudes and qualitative judgments. This is not to say that these aspects are not important. Far from it. The problem is that they interact with each other in a complex way.

As one example, take the impact of the 1971 revisions to the Unemployment Insurance Act. Basically the changes increased the number of employees eligible for inclusion in the scheme, and at the same time they stepped up the amount that could be paid in benefits to those out of work. When, in the subsequent few years, total expenditures in the scheme soared to billions of dollars a year (at a time, as has already been noted, of unusually high unemployment rates considering the state of the economy), public concern was roused. Was the new scheme simply encouraging people to remain idle, draw benefits and lead a life of ease?

We will never know to what extent this has been so. The essence of the issue was summed up in a study by the C. D. Howe Research Institute in its 1975 Annual Review – one among several studies examining the question:

The major controversy regarding the new Unemployment Insurance Act is centred on its impact on the work incentive – that is, on the labour market decisions of individuals. In effect, the easier availability of higher UI benefits may have altered the incentive for some people to work and has, therefore, probably led to some induced unemployment.

An individual's decision to work is based on a comparison of the costs and benefits of work. When economists speak about costs or prices, they usually refer to the foregone opportunities resulting from a choice of one alternative over another. The cost of work is the leisure an individual must give up, and the benefit resulting from work is the income received (and individual self-satisfaction).

UI has some impact on three main decisions of the working-age population:

- *UI can influence the decision to enter, remain in, or leave the labour force – the labour force participation of individuals.*
- *UI can influence the decision to leave a job voluntarily to search for a new and better one – the turnover rate of labour force participants.*
- *UI can influence the decision as to how long to search for a job – the duration of unemployment. Because UI mainly involves monetary assistance, it influences labour force decision-making by reducing the costs of unemployment and job search – that is, changing an individual's preference for leisure as compared to work.*

The study made the following conclusions:

The 1971 changes in unemployment insurance were intended to give unemployed and underemployed workers more alternatives in choosing jobs. The new Act has provided more economic freedom for Canadian workers to find satisfying jobs at a time when there has been an influx of (what we have labeled) **marginal** *workers who already enjoy more economic freedom and tend to be more selective about their jobs than were their predecessors. Therefore, UI has had a reinforcing effect on trends in the labour market and has probably led to some increase in both duration of unemployment and job turnover – that is, it has reinforced the trend towards more frictional unemployment.*

(By "marginal" workers the study meant those at the margin of the labour force, who are not for the most part the prime breadwinners in the family, including many young adults and women, as well as those who are only seasonally employed. "Frictional unemployment" is the (normal) unemployment that occurs "between jobs" – in other words, of fairly short duration.)

The main point of this excursion into the Unemployment Insurance issue is that in this recent period various changes have been taking place all at the same time. There have been the major structural changes in Canada's labour force, referred to earlier. Attitudes to work have certainly been shifting; younger people expect to find satisfying jobs, and in many cases emerge from very different educational backgrounds than those of their parents. The "work ethic", or at least the sense of work for work's sake, has certainly been amended somewhat in the light of the available alternatives.[6] In other words, we are dealing with questions about the **quality** and suitability of work as well as simply the number of jobs and the number of people. This is why arguments about unemployment are often over-simplified and exaggerated.

photo: Ontario Archives

The 1930s: feeding hungry transients looking for work in Delhi, Ontario tobacco fields.

Unemployment and Government Policies

At the beginning of this article it was pointed out that unemployment is one of the chief concerns of governments in deciding on their economic policies. In what ways are their policy measures connected with unemployment? From the preceding section two conclusions may be drawn.

Firstly, we should acknowledge that there may be **indirect** (and often hard to measure) effects on employment or unemployment as a result of virtually any policy measures taken. In the wide range of economic policies adopted in recent years, including those affecting housing, social welfare legislation, regional development, external trade and so on, the pattern and growth of employment has been affected. This has occurred not just through influences on the location of new industries but also by inducing various changes in people's incentives, attitudes and mobility. Thus while it may be routine for governments to ask themselves just what the employment impact of any new policy might be, the actual outcome in the whole labour market situation may be diffused and virtually impossible to anticipate.

The other conclusion from the preceding section should perhaps be that the traditional major policy tools open to governments in trying to secure full employment – the fiscal and monetary levers – are very imprecise. Fiscal and monetary policies can certainly stimulate total economic activity, and from the increase in aggregate demand and output some increase in total employment can be expected to follow.

But only up to a point. It was made quite clear in the early years of this decade – not just in Canada but in many of the other western industrial countries – that a strongly stimulated economy may run up against problems of skilled labour shortages, or bottle-necks in the supply of materials, while sizeable pockets of unemployment remain. There is a real problem, in other words, of matching jobs and people.

Compounding this is the problem of controlling inflation. Until quite recently, the possibility, under Keynesian theory and practice, of high unemployment and high inflation existing side by side was considered very remote. But within the past six or seven years, the so-called "trade-off" between the two has ceased to function in a meaningful way. Governments can no longer conduct their policies so as to trade a little less unemployment for a little more inflation (or, vice versa, of trying to engineer a little less inflation at the expense of a little more unemployment).

Various reasons have been offered for this breakdown of the traditional trade-off relationship. So far as the unemployment rate is concerned, a few of the factors have been briefly touched on; and among the explanations offered as to why inflation rates have recently tended to be persistently higher are the general strengthening of expectations of inflation and the unresponsiveness of prices and wages to changes in market conditions. Perhaps the most important point to bear in mind, however, is that in a situation where inflation is already rampant in the economy, stimulative policies aimed at improving the unemployment rate may be only of limited, short-term, use. Thus even though inflation rates in many countries have dipped appreciably from their extraordinary rates of 1974-75, the fear of setting off another round of inflation by feeding too much stimulus to the recovery has continued to be a serious concern among governments throughout the world.

The fiscal and monetary approach is sometimes referred to as a "demand" policy, since it works by affecting the demand for goods and services in the economy. It is also possible for governments to move directly into selective job creation via such programs as Opportunities for Youth (now defunct) and the Local Initiatives Program (now considerably cut back). The broad aim of such programs is to harness otherwise-idle local resources and direct them to projects of benefit to the community.

photo: Robert C. Ragsdale

The challenge of matching jobs and people remains as great as ever . . .

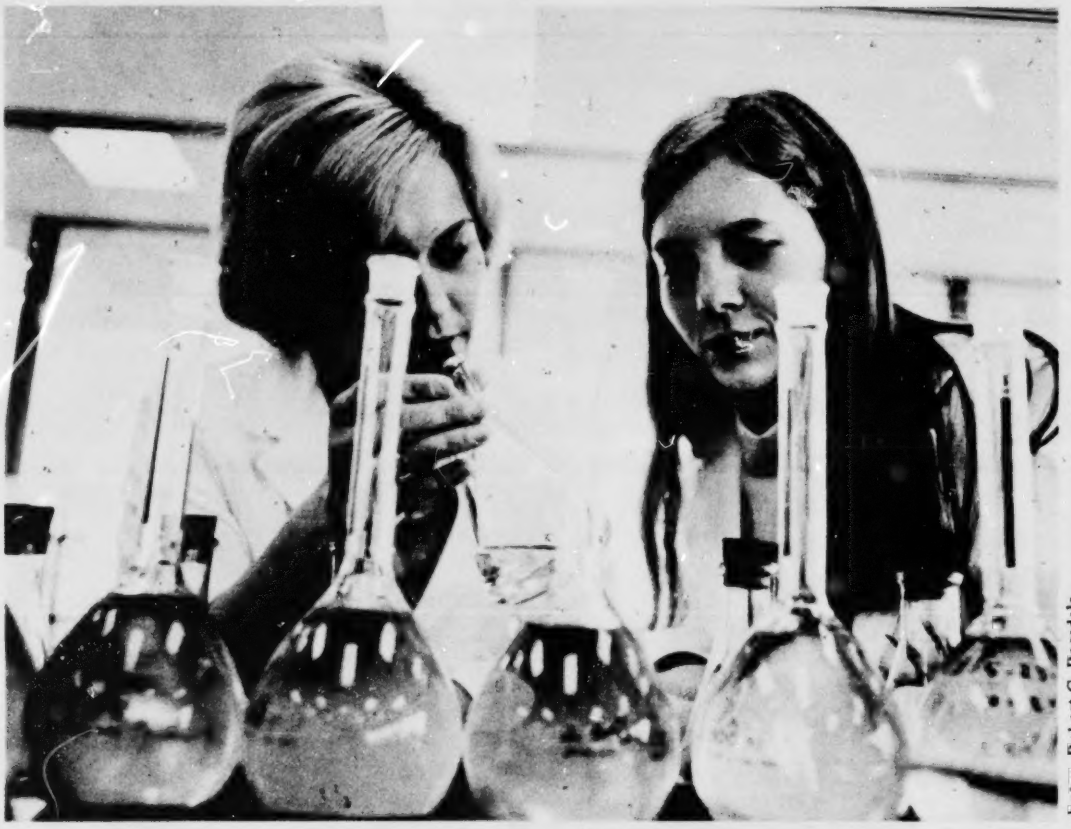


photo: Robert C. Ragsdale

. . . as individuals continue to search for satisfying and rewarding work.

The other main policy approach is sometimes described as being a "supply" policy, since it is an attempt to improve the supply of labour by helping the available people fit the available jobs. Included in this category are training programs, counselling, spreading information to aid the job search and ensuring the removal of artificial barriers to the eligibility of people to jobs. Bearing in mind the major structural and social changes affecting the labour markets in recent years, efforts such as these are now regarded as essential parts of Canada's full employment policies.

Unemployment is not the affliction that it was in the 1930s. Since then, we have learned a few ways of keeping total employment reasonably high and we have also devised financial cushions to alleviate the hardship of those who are without work. But this should not lead us to think that we should no longer be concerned about it. Certainly, so far as the next few years are concerned, we are likely to be hearing quite a lot about the problem.

The unemployment rate could well remain relatively high compared with the "full-employment" target rates that used to be talked about in the 1960s. As we have seen, it is misleading to think of the aggregate unemployment rate as meaning what it meant ten years ago, because of the many subsequent changes that have affected the labour markets. However, we have also seen that the challenge of matching jobs and people remains as great as ever. It would be naive and dangerous to assume that unemployment is a problem that can be solved easily. At any time there are likely to be some people unable to find fully satisfying and rewarding work. The dilemma for society as a whole is to find some agreed means of coping with that fact while not losing sight of other competing goals.

Notes

1. An excellent survey of Canada's labour markets, including a clear commentary and many charts and tables, is to be found in **Perspective Canada**, Chapter 6 (p. 33). Statistics Canada.

2. "Revision of the Labour Force Survey" (p.10) in **Canadian Statistical Review**, March 1976. Statistics Canada.

3. "Why recovering economies don't create enough jobs", **Business Week**, March 22, 1976.

4. Statistical adjustments of various national unemployment rates (to a common, U. S., basis) are made, for example, by the U. S. Department of Labor.

5. Sylvia Ostry, "The Unemployment Rate: Superstatistic? " in **Common Sense Economics** Vol III, No. 1, 1975, University of Waterloo Economics Department.

6. Kenneth Strand, "Manpower"; paper prepared for 1974 **National Economic Conference**, Economic Council of Canada.